

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

WESTERN MASSACHUSETTS ELECTRIC COMPANY

DOCKET NO. D.T.E. 97-120

ELECTRIC RESTRUCTURING PLAN

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TESTIMONY OF

GARY A. LONG

ON BEHALF OF

WESTERN MASSACHUSETTS ELECTRIC COMPANY

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SEPTEMBER 1998

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1 Q. Please state your name, position, and business address.

2 A. My name is Gary A. Long. I am Vice President - Customer Service and Economic  
3 Development for Public Service Company of New Hampshire (PSNH), one of the  
4 utility operating companies of Northeast Utilities (NU). My primary business address is  
5 1000 Elm Street, Manchester, New Hampshire.  
6

7 Q. In addition to your position as a Vice President for PSNH, do you have other  
8 responsibilities within NU?

9 A. Yes. The retail operations of PSNH, of which I am a part, are organized within the  
10 Retail Business Group (RBG) of NU. I am on assignment to serve as the RBG officer  
11 in charge of overseeing the implementation of retail customer choice of generation  
12 services within RBG in each of the three States served by the NU's utility operating  
13 companies; namely, New Hampshire, Massachusetts, and Connecticut.

14

15 Q. Please summarize your education and professional experience.

16 A. I received a Bachelor of Science degree in Electrical Engineering from New Mexico  
17 State University in 1973 and a Master of Science Degree in Electrical Engineering from

1 Northeastern University in 1981. Prior to joining PSNH, I served as an officer in the  
2 United States Air Force.

3 While employed at PSNH and NU, I have acquired extensive experience in the area of  
4 cost studies, rates, tariffs, load research, power contracts, marketing, and customer  
5 service. In the early 1980's, I directed the development of several PSNH computer  
6 systems, including a large power billing system, a load research system, an interval load  
7 data management system, and a revenue reporting system.

8 More recently, at PSNH, I directed the negotiation, development and implementation of  
9 the Retail Electric Competition Pilot Program for PSNH. This pilot program was the  
10 first of its kind when it began in 1996.

11

12 Q. Have you testified previously before the Department of Telecommunications and  
13 Energy?

14 A. No, although I have testified on numerous occasions before the New Hampshire Public  
15 Utilities Commission, and I have submitted written testimony on several occasions  
16 before the Federal Energy Regulatory Commission and the Connecticut Department of  
17 Public Utility Control.

18

19 Q. What is the purpose of your testimony?

20 A. My testimony will address the following areas: Standard offer service solicitation,  
21 default service, and restructuring operational implementation issues.

22

## 23 **STANDARD OFFER SERVICE SOLICITATION**

24 Q. What actions has WMECO taken to date to procure Standard Offer supply?

25 A. On January 30, 1998, the Company mailed a Standard Offer (SO) RFQ to  
26 approximately 200 potential suppliers. Legal notices were placed in The Wall Street  
27 Journal, The Boston Globe, and the Springfield Union News.

1

2 Q. What success did your solicitation produce?

3 A. WMECO received only one response to its RFQ, which was from an NU affiliate. At  
4 the time, the issued RFQ was similar to other New England utilities' solicitations, and  
5 no Massachusetts or Rhode Island SO solicitation process had subscribed a single  
6 conforming bid for SO procurement.

7

8 Q. To what do you attribute the lack of participation in the SO solicitation process?

9 A. There are four issues that currently affect the solicitation effort:

- 10 a. There are limited generation resources available to potential power suppliers and  
11 power marketers because the ownership of generation assets on a New England-  
12 wide basis is in transition.
- 13 b. Access to the wholesale power market has also been hampered by delays in the  
14 Second Effective Date of the Restated NEPOOL Agreement. At this time, the  
15 Independent System Operator - New England, Inc. ("ISO-NE") anticipates that the  
16 Second Effective Date will occur on December 1, 1998. Until FERC grants the  
17 approvals necessary to proceed with the Second Effective Date, many factors  
18 affecting the delivered price of power will not be resolved.
- 19 c. There still is uncertainty about the magnitude of Standard Offer and Default Service  
20 load responsibilities, and this complicates procurement commitments in the future.
- 21 d. The stipulated price caps that utilities, including WMECO, put into their RFQs may  
22 be insufficient to cover all supplier costs or risks.

23

24 Q. Has WMECO taken additional steps to procure Standard Offer supply?

25 A. On May 15, 1998, WMECO submitted an RFP to the Department. However, pending  
26 approval of the Department, the RFP has not been sent to potential suppliers.

27

1 Q. How would you characterize WMECO's proposed RFP?

2 A. WMECO currently proposes four options that a bidder can use with which to respond to  
3 the Company's RFP.

4 a. Option I C A single supplier will serve WMECO's entire SO load responsibility.

5 b. Option II C Suppliers will provide WMECO with Base Load Service.

6 c. Option III C A single supplier will serve and manage the total SO load  
7 responsibility net of the total energy provided by "Base Load Service" suppliers  
8 (Option II).

9 d. Option IV C Suppliers may submit bids that are non-conforming with the options  
10 mentioned above.

11 A brief description of each option is given below:

12 a. Under Option I, only one supplier will be awarded a contract. The winning supplier  
13 will be paid an amount equal to the product of its bid price (in cents/kWh) and the  
14 WMECO entire SO load responsibility measured at customers' meters for the  
15 payment period in question.

16 b. Under Option II, potential suppliers will bid to serve around the clock firm energy  
17 blocks at 100 percent load factors. WMECO will identify the amount of Base Load  
18 energy required each year. Respondents may offer to serve any block size in a  
19 particular year within a minimum bid of one MW and the maximum amount  
20 required for that year. Every supplier must bid to supply load throughout the seven  
21 year period. WMECO may select several "Base Load Service" suppliers to meet the  
22 needs of its SO customers. This option works in tandem with Option III, "Load  
23 Following Service." Each winning supplier using this option will be paid, on a  
24 periodic basis, an amount equal to the product of its bid price (in cents/kWh), the  
25 MWs of capacity the supplier is contracted to provide and number of hours in the  
26 applicable billing period. Bid prices for Base Load Service must be inclusive of the  
27 suppliers' costs of all energy, capacity and associated NEPOOL ancillary services  
28 and other expenses over the Transition Period. Sellers of Base Load Service will be

1 responsible for their pro-rata shares of NEPOOL charges as determined by the  
2 provider of the Load Following Service. (See Option III below.) If the total  
3 amount of Base Load bids for any year is less than the total megawatts solicited for  
4 that year. WMECO will designate the shortfall as an obligation that would be  
5 included in the total Load Following Service requirements eligible for the bidders  
6 selecting Option III.

- 7 c. Under Option III, only one "Load Following Service" supplier will be awarded a  
8 contract. The winning supplier will be paid an administrative charge and a  
9 performance based bonus, both must be specified in its bid. Each bidder will be  
10 asked to propose their two-part price for Load Following Service at two separate  
11 levels of commitment. The first commitment level will equal the projected Load  
12 Following requirement net of the total Base Load Service (awarded under Option  
13 II). The second level (assuming no Base Load Service is awarded) will equal  
14 WMECO's total SO load obligation for each year in the Transition Period.  
15 WMECO will assert that none of these levels should be interpreted to represent a  
16 forecast of WMECO's actual future Load Following SO requirements. The winner  
17 of Option III will be responsible for meeting all NEPOOL ancillary service and  
18 other charges associated with serving the entire SO Load obligation of WMECO on  
19 a continuous basis throughout the Transition Period. Such winner will determine  
20 the Base Load provider(s)' (if any) pro rata share(s) of the NEPOOL charges and  
21 pass them over to the supplier(s) of the Base Load Service either directly or through  
22 WMECO (which will then apply such charges and credits to be netted out of the  
23 payments for Base Load power).
- 24 d. Certain suppliers may not be capable of, or desire to, submit bids in accordance  
25 with any of the above options. Such suppliers are able to submit alternative  
26 proposals if they can provide added value to WMECO's Standard Offer to  
27 customers. The added value should be translatable into reduced cost and/or lower  
28 risks. Under option four, for example, suppliers may submit single year or partial  
29 load requirement bids.

1 Q. What were the Company's objectives in designing the proposal?

2 A. a. To maximize the flexibility for respondents by placing no unnecessary constraints  
3 on the market;

4 b. To minimize the financial risk to the Company associated with the recovery of  
5 deferred SO energy and related costs;

6 c. To create confidence in the SO procurement process by encouraging the  
7 participation of an additional neutral observer(s) of the solicitation process; and

8 d. To provide adequate protection from contractor non-performance.  
9

10 Q. How does the Company's current RFP address each of the above stated objectives?

11 A. Using the following strategy, the Company believes it will be successful with the RFP  
12 in procuring Standard Offer supply by:

13 a. Conducting a solicitation that will generate a robust response. WMECO believes it  
14 must be flexible in accepting a variety of proposals from the market.

15 b. Eliminating unnecessary constraints on the market. The Company removed all  
16 suppliers' "Stipulated Price Caps" from the solicitation. WMECO's ability to  
17 remove the supplier stipulated price caps is dependent upon the Department's  
18 approval of deferred cost recovery for any SO power acquisition costs in excess of  
19 the retail price to customers.

20 c. Minimizing the financial risk to the Company. WMECO offers multiple bidding  
21 options that respondents can utilize to develop their proposals.

22 d. Facilitating the participation of a neutral observer. The Company has retained the  
23 firm of Rumla, Inc. of Walnut Creek, California, an independent third party to help  
24 in the selection of the Standard Offer Service supplier(s). Rumla, Inc. has had no  
25 prior contractual agreements with NU.

26 e. Being open to the involvement of another neutral observer in the evaluation process  
27 of the submitted proposals who represents the concerns of the Attorney General's

1 Office, the Division of Energy Resources and the Department.

2

3 Q. Has WMECO taken similar steps concerning default service?

4 A. Yes, the detail has been provided in the comprehensive filing.

5

6 **UNIVERSAL SERVICE**

7 Q. Is it important to recognize changing roles and new relationships that electric industry  
8 restructuring and generation divestiture are creating?

9 A. Yes. WMECO no longer has a role to guarantee supply and energy price stability, but  
10 rather is a conduit for customer access to market supplied energy. As the electric  
11 industry restructures, consumers are more at risk for their choices; competitive markets  
12 experience shortages and electricity prices rise and fall.

13

14 Q. Discuss how the Company will fulfill its obligation to provide universal service?

15 A. In the new regulatory system, the Company will be responsible for procuring Standard  
16 Offer Service for seven years and will be responsible for procuring Default Service  
17 indefinitely as well as continue to provide all customers the delivery services which  
18 allow customers access to market-supplied energy. As such, the Company's current  
19 obligation to serve is not eliminated. However, it does require some revisions and new  
20 provisions.

21

22 Q. What are the components of universal service and how do they accommodate direct  
23 access?

24 A. Universal Service is comprised of Standard Offer and Default Service, Terms and  
25 Conditions, Low Income Provisions and Consumer Education. Standard Offer and  
26 Default Service are addressed in greater detail in the revised plan.

27 The Terms and Conditions for Distribution Service ensures that all customers will be

1 provided non-discriminatory access to electricity, while allowing customers to select a  
2 competitive supplier or continue to receive Standard Offer or Default service through  
3 the Company. In addition to protecting customer's rights, the Terms and Conditions  
4 also ensure that all customers pay their fair share of transition costs and other applicable  
5 charges. The Terms and Conditions for Distribution Service are attached in the revised  
6 plan.

7 The Company provides several Low Income Provisions such as:

- 8 • Discounted Rates for eligible residential customers;
- 9 • Outreach through agencies providing means tested public benefits;
- 10 • Cost effective DSM programs;
- 11 • Initiating a payment incentive pilot program, NUSTART, by the fourth quarter  
12 of 1998 and;
- 13 • A Low Income Payment Guarantee as mandated by the Department.

14 The Company has also participated in the Consumer Education Advisory Task Force  
15 which was developed under the aegis of the Department and the Division of Energy  
16 Resources.

17

18 Q. What steps has the Company taken to facilitate a smooth transition to retail access?

19 A. The Company has actively participated in a number of joint efforts to ensure a smooth  
20 transition to retail access. These efforts include:

- 21 a. The development of Terms and Conditions for Competitive Suppliers which  
22 outlines how the interface between the distribution company and competitive  
23 supplier will operate. In addition, the terms set forth the essential obligation and  
24 prerequisites of the distribution company and competitive suppliers in the  
25 provisions of electric service to retail customers;
- 26 b. Participation in the "Electronic Business Transaction Working Group" (Working  
27 Group) which was established as part of the Terms and Conditions proceedings.

1 The Working Group has developed a process for the transfer of customer  
2 information between distribution companies and suppliers, while recognizing  
3 security and customer confidentiality requirements;

- 4 c. The development of a comprehensive testing package that both the distribution  
5 company and the supplier must follow with respect to the electronic business  
6 transactions developed by the Working Group. Successful testing must occur prior  
7 to enrolling a customer with a competitive supplier;
- 8 d. Participation in the EDI Transactions Control Group which is responsible for items  
9 of a technical nature pertaining to EDI formats and national standards, and;
- 10 e. The development and sponsorship of Supplier Training Sessions of which  
11 attendance is a licensing requirement. "Supplier Guides" which contain critical  
12 information are distributed at the training sessions.

13

14 **METERING, BILLING AND INFORMATION SERVICES**

15 Q. What is the Company's position on Metering, Billing and Information Services  
16 (MBIS)?

17 A. WMECO actively participated in the working groups established at the request of the  
18 Department to study the issues related to unbundling metering, billing and information  
19 services. A comprehensive model was developed and submitted to the Department on  
20 October 31, 1997 by the MBIS Regulated Model Working Group. The model; which  
21 WMECO supports, detailed a plan that retained bundled MBIS services while providing  
22 the flexibility anticipated for the evolving market.

23

24 **ENERGY CONSERVATION AND DEMAND SIDE MANAGEMENT**

25 Q. Will DSM be addressed as part of this docket?

26 A. No, however the Company will collect the fees at the mandated level. The matter of  
27 the Company's DSM programs was settled, by order of the Department, in D.P.U. 97-  
28 106 and in D.T.E. 97-120. On February 20, 1998, the Department approved an

1 Amended Offer of Settlement between WMECO, the Attorney General, the Division of  
2 Energy Resources, and the Conservation Law Foundation, resolving DSM-related  
3 issues. The Company's Energy Efficiency Plan, describing the proposed DSM program  
4 plans and budgets, was incorporated into the Amended Settlement as Attachment A and  
5 was also filed in D.T.E. 97-120, on December 31, 1997 as Exhibit 18. In its decision,  
6 the Department found that the Amended Settlement is consistent with the Act and  
7 D.P.U. 96-100.

8

## 9 **EMPLOYEE AND COMMUNITY IMPACTS**

10 Q. What efforts has the company undertaken to facilitate a smooth transition to retail  
11 choice for its employees and communities?

12 A. WMECO has been working diligently to facilitate a smooth transition to a restructured  
13 electric industry with its employees and communities.

14 The Company has engaged in many educational and informational communications to  
15 keep employees at all levels, aware of the changes occurring in the electric industry.  
16 Some of the Company's efforts have included, regular communications between senior  
17 management and employees at all levels of the organization, departmental meetings,  
18 training sessions for employees interacting with customers and grassroots workshops  
19 focusing on the changes in the electric industry. As restructuring moves forward, the  
20 Company will continue to focus on employee education.

21 As WMECO proceeds with the divestiture of its generation assets, the impact on  
22 employees will receive close attention. Special provisions related to WMECO  
23 personnel employed in generation areas are described in the WMECO Descriptive  
24 Memorandum for the sale of WMECO generation assets.

25 WMECO has an active program to educate its consumers on the changes occurring the  
26 electric industry. The Company has held restructuring workshops for residential,  
27 commercial and industrial customers, met with municipal and community leaders and  
28 developed and distributed materials relevant to the restructuring issues. WMECO plans  
29 to continue its focus on educating its consumers as the market develops and different

1 issues arise.

2

3 Q. Please describe in detail the Company's outreach with respect to the low-income  
4 discount rate.

5 A. The Company conducts broad outreach to inform customers about the low-income  
6 discount rate through the special bill inserts. In addition, the low-income discount is  
7 discussed in Help-Line which is mailed to all identified low income customers, in NU  
8 Neighbors which is sent to senior customers, and in Help-Notes which is mailed to  
9 more than 500 agencies in western Massachusetts. The Department of Transitional  
10 Assistance (DTA) also sends a letter to new clients in the WMECO service territory  
11 telling them about the discount and enclosing a preprinted form that serves as  
12 verification of the customer's status as a recipient of benefits administered by the DTA.  
13 The Company works directly with the fuel assistance agencies in the service territory  
14 and obtains lists of fuel assistance clients. In general, fuel assistance recipients who are  
15 customers of record are coded as eligible for the discount without having to complete  
16 an application.

17 Further, the Company has sent a letter, dated March 19, 1998 to each of the local  
18 housing authorities in the service territory. The letter explains that customers of record  
19 with income up to 175 per cent of the federal poverty level who reside in state or  
20 federally subsidized public housing now qualify for the low-income discount.

21

22 Q. In terms of tax revenues has the company considered the impact on communities of  
23 WMECO's sale of its non-nuclear generating plants?

24 A. In the restructuring legislation, there are provisions that address in-lieu-of-tax payments  
25 that would be paid to an affected community. WMECO fully expects to comply with  
26 the provisions of the legislation and to work with the communities on a resolution of  
27 what those payments should be. There is also the distinct possibility that the sale of the  
28 plants will be for more than net book value. Therefore, the sale may increase tax  
29 revenues to affected communities and eliminate any need for in-lieu-of tax payments.

1

2 Q. Does this conclude your testimony?

3 A. Yes, it does